



## Federal Budget and Revenue Update

February 8, 2005

An Information Service of the NCSL Budgets and Revenue Committee

### President Releases FY 2006 Budget

*Note: This document is based on a preliminary review of the President's FY 2006 Budget. Not all programs and funding activities are covered.*

On February 7, 2005, the President's Fiscal Year (FY) 2006 budget request was released. The proposal, which weighs in at \$2.57 trillion, kicks off the federal budget process. Over the next few weeks, the House and Senate Budget Committees will craft their respective Budget Resolutions to guide spending choices, both discretionary and mandatory. While there is an April 15 statutory deadline, by which the Budget Resolution is to be conferenced and approved by both chambers, last year an agreement was never reached. The Resolution is not formally a law so it does not require the President's signature. The amounts set in the resolution are translated into allocations to the Appropriations Committees for discretionary programs and sets the stage for potential cuts and changes to mandatory or entitlement programs through a budget reconciliation bill. The target date for completion of these decisions is the new fiscal year, which begins on October 1, 2005. However, Congress has rarely met this date and often uses continuing resolutions during the interim. In general, the President's FY 2006 budget request:

- Provides \$840 billion in discretionary spending, of which \$389 billion is for non-defense, non-homeland security-related programs.
- Holds growth in total discretionary spending to 2.1 percent, lower than the expected rate of inflation.
- Decreases non-defense, non-homeland security discretionary spending by nearly 1 percent.
- Increases overall defense spending by 4.8 percent, or by 41 percent since 2001.

Table 1: Discretionary Totals			
Discretionary Budget Authority	2005 Enacted	2006 Request	Percentage Change
Defense	\$400 billion	\$419 billion	5%
Homeland Security (non-defense)	\$31 billion	\$32 billion	3%
Other	\$391 billion	\$389 billion	-1%
<b>Total</b>	<b>\$823 billion</b>	<b>\$840 billion</b>	<b>2%</b>

- Proposes more than 150 program reductions and eliminations in non-defense discretionary programs, one-third of which are education programs, saving the federal government approximately \$20 billion in FY 2006.
- Proposes to consolidate a number of programs. In most cases, the proposed consolidations provide states with additional flexibility but less funds.
- Proposes an additional set of reforms in mandatory programs, saving approximately \$137 billion over the next 10 years. This includes a proposal to curtail intergovernmental transfers (IGTs) and other financing mechanisms under Medicaid.
- Estimates the annual budget deficit in 2005 to be \$427 billion, or 3.5 percent of GDP.
- Proposes to reduce the annual deficit by 50 percent between 2004 and 2009. However, the budget does not include funds for ongoing military operations in Iraq, making permanent or extending federal tax cuts or enacting Social Security reforms, all of which are part of the President's agenda and would have a significant budgetary impact.

Below are highlights from specific departmental budgets.

### **Department of Agriculture**

The President's FY 2006 budget proposal provides a 10 percent decrease in funds from FY 2005 levels for the Department of Agriculture. In particular, the budget would:

- Provide \$40 billion (including contingency funds) for the Food Stamps Program. The request also includes a legislative proposal to cut \$57 million in the program by limiting categorical eligibility to recipients of TANF cash assistance and SSI. This cut would impact 11 states—Delaware, Maine, Maryland, Massachusetts, Michigan, North Dakota, Oregon, South Carolina, Texas, Washington and Wisconsin.
- Increase funding for the Special Supplemental Nutrition Program for Women, Infants and Families (WIC) by \$275 million—for a total of \$5.6 billion. According to budget documents, there will be several legislative proposals to include a 25 percent cap on administrative spending and a proposal to eliminate WIC benefits for persons receiving Medicaid or persons in a household that receives Medicaid unless the household's income is less than 250% of poverty.
- Decrease funds for the Food Safety and Inspection Service by more than \$100 million from the FY05 level of \$711 million.
- Reduce by 50 percent—from \$30 million to \$15 million—the Grain Inspection, Packers and Stockyards Administration.
- Reduce the payment limit cap for individuals to \$250,000 for commodity payments.
- Reduce crop and dairy payments to farmers by five percent.
- Extend the Milk Income Loss Compensation Program for two years.

### **Department of Commerce**

The President proposes to consolidate 18 existing economic and community development programs—including the Community Development Block Grant (CDBG) and the Community Service Block Grant (CSBG)—from seven federal agencies into two new programs: (1) Strengthening America's Communities Initiative, a unified economic and community development grant program, and (2) The Economic Development Challenge Fund, a bonus grant program for development-ready communities. As it relates to the latter program, a development-ready community is identified as one that has already taken steps to improve conditions in ways that have been proven to attract businesses, including:

- Improving schools by meeting No Child Left Behind adequate yearly progress goals;
- Reducing regulatory barriers to business creation and housing development; and
- Reducing violent crime rates within the community.

In particular the budget provides \$3.7 billion in FY 2006 for the two programs. In FY 2005, the 18 programs collectively were funded at over \$5 billion.

### **Department of Education**

The President's FY 2006 budget proposes to terminate 48 education programs, including Even Start, Safe and Drug-Free School State Grants, Educational Technology State Grants, and Vocational Education and many others that were determined not to demonstrate results as per PART assessments. In addition, funding for 16 programs would be reduced. As a result \$4.7 billion will be redirected toward such programs as Title I, IDEA, the High School Intervention Initiative and improving teacher quality. The budget proposal would also:

#### **Program Assessment Rating Tool (PART)**

As part of an effort to restrain spending in developing the budget, the Administration was guided by three criteria.

1. Does the program meet the Nation's Priorities?
2. Does the program meet the President's principles for appropriate use of taxpayer resources?
3. Does the program produce the intended results?

Almost four years ago, departments began to use what is known as the Program Assessment Rating Tool (PART) to measure the success of programs in meeting goals and to identify which programs are achieving their intended results and which are not. In most cases, PART was used to identify the programs proposed for elimination or reduction in the President's FY 2006 Budget proposal.

- Create a new high school initiative to extend No Child Left Behind (NCLB) into the upper grades. The program consolidates existing programs—Vocational Education, Talent Search, GEAR UP and Smaller Learning Communities. This includes \$1.2 billion in grants for states. States are required to participate in biennial State academic assessments of 12th grade reading and mathematics, as defined, as a condition of receiving funds under Title I.
- Provide an additional \$603 million for Title I over FY 2005 levels to help implement NCLB.
- Provide an additional \$508 million for IDEA special education grants to states. (This increase brings the federal commitment to 19 percent of the average per public expenditure).
- Eliminate funding for Even Start.
- Expand the Pell Grant Program.

#### **Department of Energy**

- Provides level funding (\$230 million) for Weatherization grants.

#### **Environmental Protection Agency**

- Reduces funds for the Clean Water State Revolving Fund (SRF) by \$361 million (to \$730 million) from FY 2005 levels. The FY 2005 levels were \$251 million lower than FY 2004 levels (\$1.2 billion).
- Provides level funding (at \$850 million) for the Drinking Water SRF.
- Provides an increase of \$46 million (for a total of \$210 million) for brownfields work.
- Continues its commitment to the Clear Skies Initiative.

#### **Department of Health and Human Services** *(a reminder these are only select items)*

The President's budget proposal provides for \$142 billion in new spending on health insurance initiatives—several of which are tax credit or insurance coverage options. It also provides for \$60 billion in federal savings from reduced Medicaid spending, thereby providing for \$82 billion in net new spending.

#### ***Medicaid and SCHIP***

In particular, the budget proposes to:

- Curtail intergovernmental transfers (IGTs) and other financing mechanisms under Medicaid—saving the federal government \$60 billion over 10 years. According to a document released by HHS, Medicaid savings include:
  - \$15 billion through use of Average Sale Price (ASP) to reimburse pharmacies;
  - \$4.5 billion from closing loopholes on asset transfers for long-term care eligibility;
  - \$11.9 billion from ensuring that Medicaid pays for only net provider expenditures;
  - \$3.3 billion by limiting payment to government providers to actual costs;
  - \$6.2 billion by phasing down of existing “safe harbor” for state taxes on providers from 6 percent to 3 percent;
  - \$1.4 billion by bringing managed care organizations into line with other provider classes as it relates to taxes;
  - \$6.0 billion in savings by establishing an allotment for state administrative claiming;
  - \$4 billion from matching targeted case management (TCM) at uniform rates; and
  - \$7.7 billion by avoiding state-to-Federal cost shifts for TCM and other services.
- Extend Transitional Medical Assistance benefits through September 2006.
- Provide \$1 billion in grant money for a new Cover the Kids program to improve Medicaid/SCHIP outreach efforts.
- Reauthorize SCHIP at current levels.

#### ***Other Health and Human Services Programs***

- Expands the Vaccines for Children (VFC) program to allow under-insured children to receive VFC inoculations at State and local health departments.
- Provides an additional \$304 million for the Health Centers program, to include \$26 million to fund new health center sites in high poverty counties.

- Proposes a five-year demonstration project in which Federal grant funds would pay for home and community-based waiver services for individuals who move from institutions into at-home care. The costs of this at-home care would be fully assumed by the federal government for the first year of each individual's participation. As a condition of receiving this funding, participating States would agree to continue supporting this care after the first year at the regular Medicaid matching rate.
- Provides level funding—\$2.0 billion total (\$1.8 billion in formula block grants and \$200 million for contingency funding)—for Low Income Home Energy Assistance Program (LIHEAP).
- Provides level funding for Ryan White HIV/AIDS Grants.
- Provides level funding for the Maternal and Child Health Block Grant.
- Provides level funding for the Social Service Block Grant. The budget would allow states to transfer 10% of their TANF grant into the SSBG.
- Provides level funding for the Substance Abuse Block Grant.
- Eliminates the Preventive Health Care Block Grant.
- Provides level funding for the Temporary Assistance for Need Families (TANF) and the Child Care and Development Block Grants.
- Assumes reauthorization the TANF.
- Reduces by \$130 million—to \$797 million—the CDC bioterrorism grants.
- Eliminates the Traumatic Brain Injury and Emergency Medical Services for Children Program.
- Reduces by \$115 million, HRSA rural programs, but maintains funding for state rural health offices at \$8 million.
- Eliminates most of the health professions grants in order to direct resources to activities that are capable of placing health care providers in medically underserved communities
- Provides \$15 million to improve the Voting Access for Individuals with Disabilities grant program.

### **Department of Homeland Security**

The President's FY 2006 budget proposal would restructure the Department of Homeland Security, Office of Domestic Preparedness grant programs. This includes a change in the small state minimum and a larger portion of the funds allocated to discretionary grants versus formula-based grants. The budget proposal would also:

- Reduce funds for the Firefighter Grants program from \$715 in FY 2005 to \$500 in FY 2006.
- Eliminate funding for the Metropolitan Medical Response System (MMRS)
- Increase passenger fees on airline tickets.
- Make other changes to programs within the Office of Domestic Preparedness (see table 2).

<b>Table 2.</b>		
<b>Program</b>	<b>FY 2005 Enacted</b>	<b>FY 2006 Request</b>
State Homeland Security Grant Program (SHGP)	\$1.1 billion	\$1.02 billion. This use to be a formula grant where each state received .75 percent with the remaining funds distributed based on population. <u>This would be converted into a discretionary grant program. Each state would receive no less than .25 percent of the total.</u> At least 20% of the funds shall be used for terrorism prevention activities of law enforcement (LETPP).
Urban Area Security Initiative (UASI)	\$885 million	\$1.02 billion . At least 20% of the funds shall be used for terrorism prevention activities of law enforcement (LETPP).
Law Enforcement Terrorism Prevention Program (LETPP)	\$400 million	Approximately \$400 million. See SHGP and UASI.
Citizen Corp Grant Program	\$15 million	\$50 million
Emergency Management Planning Grants	\$180 million	\$170 million

### **Department of Housing and Urban Development**

The Community Development Block Grant Program would be replaced in 2006, along with other federal programs for community economic development by a consolidated grant program administered by the Department of Commerce. (See Department of Commerce).

### **Department of Interior**

- Reduces funds for Payment in Lieu of Taxes (PILT).
- Eliminates the Land and Water Conservation Fund State recreation grants. A PART review found the current program could not measure performance or demonstrate results.
- Proposes to increase Outer Continental Shelf rental rates at the rate of inflation. The rates have not been raised in 10 years.
- Proposes to modify the funding allocation under the Surface Mining Control and Reclamation Act (SMCRA). This decision was based on a PART assessment.

### **Department of Justice**

The President's FY 2006 budget proposal for the Department of Justice proposes \$2 billion in savings from reductions and eliminations of programs that the administration claims fail to demonstrate results. In particular, the President's budget proposal would:

- Eliminate funding for the Community Oriented Policing Services (COPS) Hiring Grants.
- Eliminate funding for the Byrne Justice Assistance Grants
- Eliminate funding for the State Criminal Alien Assistance Program (SCAAP) grants. A 2005 PART assessment rated SCAAP as "Results Not Demonstrated."

### **Department of Labor**

The President's FY 2006 budget proposal for the Department of Labor includes a package of legislative changes that would reduce improper payments under the Unemployment Insurance (UI) Program. The budget proposes to:

- Merge the four major Department of Labor Federal job training and employment grant programs into a single \$4 billion grant program. In addition, states will have the option of consolidating certain other programs.
- Eliminate the Migrant Seasonal Farm workers training program.
- Increase civil monetary penalties for violations of laws administered by the Employment Standards Administration and the MSHA.

### **Social Security Administration**

- Increase from 7 years to 8 years the length of time refugees and asylees can receive SSI after they enter the country.

### **Department of Transportation**

The President's budget proposes to:

- Eliminate funding for Amtrak, however, does provide \$360 million for the Surface Transportation Board to maintain existing commuter services and freight traffic along the Northeast Corridor and elsewhere.
- Reduce funding for the Federal Highway Administration by \$5 billion.
- Use the Safe, Accountable, Flexible and Efficient Transportation Equity Act (SAFETEA) to consolidate into a single grant program several programs administered by the National Highway Traffic Safety Administration (NHTSA).
- Provide \$465 million in grants to states for targeted highway safety programs.
- Establish a safety belt incentive program to encourage states to enact tough safety belt laws and achieve substantially higher safety belt usage rates.
- Provides \$233 million to the Motor Carrier Safety Grants, of which \$172 million is dedicated to the Motor Carrier Safety Assistance Program for states.

### **Department of Treasury** *(a reminder these are only select items)*

The tax initiatives in the President's budget proposal total \$1.4 trillion in spending for FY 2006-2015.

This includes proposals to:

- Repeal the sunsets contained in the Economic Growth and Tax Relief Reconciliation Act of 2001 and the Growth Tax Relief Reconciliation Act of 2003. This includes making permanent the: marginal rate reductions, 10-percent rate bracket, child tax credit, standard deduction and 15 percent rate for married couples, certain education incentives, repeal of the estate tax, current capital gains and dividends rate structure, and small business exemptions. This accounts for \$1.1 trillion over 10 years.
- Create two new types of tax preferred savings accounts—Retirement Savings Accounts and Lifetime Savings Accounts.
- Consolidate all employer-sponsored retirement savings plans (except non-governmental 457 plans) into a new type of account—an Employer Retirement Savings Account.
- Allow a refundable tax credit for purchase of Health Insurance.
- Provide an above the line deduction for high deductible insurance premiums.
- Provide a refundable tax credit for contributions of small employers to employee HSAs.
- Make modifications to the Health Coverage Tax Credit.
- Provide for a number of changes regarding charitable giving.
- Provide for an above-the-line deduction for up to \$400 of out-of-pocket expenses incurred by teachers during a taxable year.
- Establish a tax credit for developers of affordable single-family housing.
- Provide certain tax credits to promote energy conservation.

### **Budget Enforcement**

As in previous year, the President is proposing several changes to the budget process, including:

- Proposing annual statutory limits (caps) on discretionary spending through 2010. Requires a three-fifths vote of the Senate for passage of an appropriations bill that caused these limits to be exceeded. If these limits were exceeded, OMB would be required to make across-the-board cuts to eliminate the excess spending.
- Re-establishing the pay-as-you-go (PAYGO) requirements for mandatory spending only; revenue legislation would not be subject to this requirement. Tax increases could not be used to offset mandatory spending increases. Requires a three-fifths vote of the Senate for an appropriations bill that caused these limits to be exceeded. If these limits were exceeded, OMB would be required to make across-the-board cuts to eliminate the excess spending.
- Establishing a new measure to analyze the long-term impact of legislation on unfunded obligations of major entitlement programs. If legislation causes an increase in these obligations, it would require a three-fifths vote of the Senate.
- Proposing a line-item veto authority for the President linked to deficit reduction. This proposal would give the President the authority to defer new spending whenever the president determines it is not an essential government priority. All savings from the line-item veto would be used for deficit reduction and could not be applied to augment other spending.
- Providing the budget resolution the force of law (It is currently a non-binding resolution).
- Changing to a biennial budget and appropriations process.
- Preventing a government shutdown through an automatic continuing resolution.
- Establishing an “administrative PAYGO” process.

The overall budget can be found on the White House website at:  
<http://www.whitehouse.gov/omb/budget/fy2006/> and at GPO's website at:  
<http://www.gpoaccess.gov/usbudget/>

The Tax proposals by the Department of the Treasury can be found at:<http://www.treas.gov/offices/tax-policy/library/bluebk05.pdf>

**Sources:**

Fiscal Year 2006 Budget of the U.S. Government  
Fiscal Year 2006 Budget of the U.S. Government: Analytical Perspectives  
Fiscal Year 2006 Budget of the U.S. Government: Historical Tables  
Fiscal Year 2006 Budget of the U.S. Government: Appendix  
A bipartisan Finance Committee staff analysis of tax items in the President's budget  
Various Federal Department Press Releases  
Includes excerpts from the above sources

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